

HAEMATO AG

Germany / Pharma
 Frankfurt
 Bloomberg: HAE GR
 ISIN: DE0006190705

H1/17
 Results

RATING
BUY

PRICE TARGET
€ 7.40

Return Potential 32.5%
 Risk Rating High

OPERATIONS RUNNING WELL DESPITE SLUGGISH FIRST HALF

Six month reporting showed revenues just off the previous level (-2%) but well below our forecast (-14%). EBIT slid some 46% Y/Y to €3.2m, due also to a lower other income contribution and a slightly lower gross margin. We look for a pick up in H2 revenue but do not expect this to offset the slower than expected H1 and have adjusted our forecasts accordingly. We believe the company will continue to gain market share in the parallel import business over the near term, while new growth verticals are on the horizon. Our revised forecasts and DCF model yield a new fair value of €7.40 / share (previously: €8.40). Our rating remains Buy.

Expect growth to resume in H2 and 2018 Although revenue fell slightly short of the prior level at €139m (H1/16: €142m), we note that the company enjoyed an exceptional result last year with 40% Y/Y top line growth in the six month period. Last year's growth should be considered against a weak 2015 when temporary regulatory restrictions gated distribution channels for parallel importers. After recently meeting with management including the newly appointed CEO, Mr Uwe Zimdars, and CFO Daniel Kracht, we believe operations are functioning well and that the company is well positioned to resume growth with its parallel import business. We expect 6.0% Y/Y growth in H2 and 10.5% for 2018. Moreover, we had an opportunity to discuss the developments of the expected move into medical products and continue to look for initial revenues in the first half of 2018 once the approval process is wrapped up. This will give the company a high margin revenue source to support management's focus on boosting profitability.

Robust platform for parallel import business We continue to like HAEMATO for its well positioned parallel import operations, which account for some 90% of its top line with generics encompassing the balance. We recently had an opportunity to visit company operations in Berlin-Schönefeld and were impressed with the production and distribution facilities. The sourcing and distribution of pharmaceuticals is an intricate process entailing critical steps from localisation and repackaging of imported products to fulfilment. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016	2017E	2018E	2019E
Revenue (€m)	202.67	229.73	275.61	280.15	309.57	340.53
Y-o-y growth	16.8%	13.3%	20.0%	1.6%	10.5%	10.0%
EBIT (€m)	8.23	8.22	13.44	8.13	11.02	12.85
EBIT margin	4.1%	3.6%	4.9%	2.9%	3.6%	3.8%
Net income (€m)	6.98	5.54	11.04	6.50	9.01	9.99
EPS (diluted) (€)	0.34	0.27	0.53	0.31	0.43	0.48
DPS (€)	0.30	0.30	0.30	0.30	0.30	0.34
FCF (€m)	4.73	0.95	10.95	-2.85	3.46	3.98
Net gearing	44.2%	53.8%	25.9%	26.0%	29.5%	31.6%
Liquid assets (€m)	2.42	2.45	9.79	8.88	11.06	13.76

RISKS

Regulatory changes in healthcare systems, spending cuts in healthcare systems, homogenization of pharmaceutical prices within the European Union.

COMPANY PROFILE

HAEMATO AG, a subsidiary of MPH Mittelständische Pharma Holding AG, is a pharma company focused on parallel imports in high priced niches. The company is targeting special pharmaceutical products in a small number of clinical indications such as oncology or HIV.

MARKET DATA

As of 03 Oct 2017

Closing Price	€ 5.59
Shares outstanding	21.98m
Market Capitalisation	€ 122.78m
52-week Range	€ 5.00 / 7.13
Avg. Volume (12 Months)	23,286

Multiples	2016	2017E	2018E
P/E	10.5	17.9	12.9
EV/Sales	0.5	0.5	0.5
EV/EBIT	10.7	17.6	13.0
Div. Yield	5.4%	5.4%	5.4%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2017

Liquid Assets	€ 4.94m
Current Assets	€ 59.55m
Intangible Assets	€ 34.58m
Total Assets	€ 119.76m
Current Liabilities	€ 29.77m
Shareholders' Equity	€ 66.11m

SHAREHOLDERS

MPH AG	50.1%
Baring Asset Management	2.9%
Free Float	47.0%



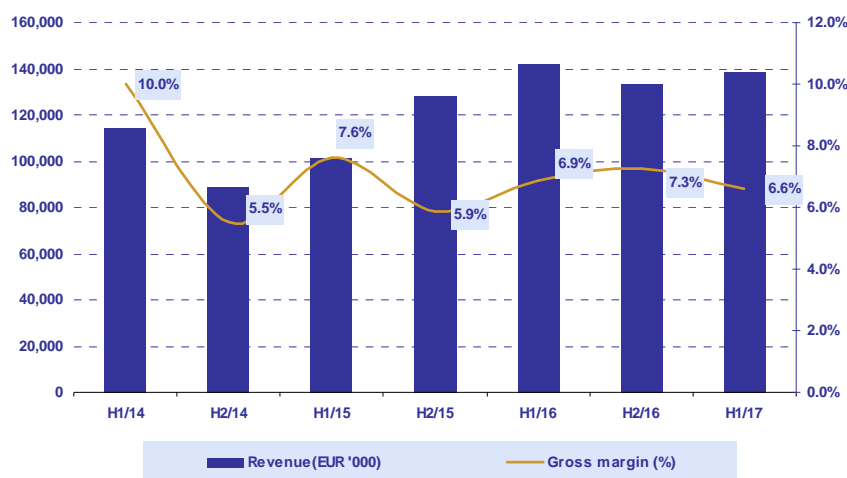
The repacking step is particularly meticulous, given strict regulatory and branding guidelines. In our view, HAEMATO operates a well calibrated production and fulfilment facility with sufficient capacity and know-how to grow parallel import operations on its home turf and Austria, while assessing opportunities to expand within the EU.

We also gained a higher level of appreciation for the sourcing and distribution teams, which orchestrate key relationships with a European group of suppliers and a broad customer base. The latter includes eleven wholesalers and some 4,800 apothecaries in Germany alone, while neighbouring Austria expands the customer base with another five wholesale operators and 1,350 pharmacies. We regard the pharmacy relationships as a key strength, which provides ground level feedback on market developments and customer needs.

The teams and their networks are difficult to replicate for new entrants and / or well capitalised digital operators. Automation of the production process makes little sense in ROI terms, given the extremely high investments that would be required to process the wide array of products and their packaging.

Margin uplift on the horizon We think the company is on the verge of improving on its gross margin, which has ranged between 5.9%—7.6% over the past two years. HAEMATO recently introduced more rigorous business intelligence (BI) platforms into its sourcing and distribution systems and data base, which should result in an uplift of some 200 basis points to the gross margin incrementally over the mid term.

Figure 1: Revenue and gross margin developments



Source: First Berlin Equity Research, HAEMATO



HYALURONIC ACID—THE RISING STAR OF SKIN CARE AND ANTI-AGING

Strong trends in lifestyle beauty and anti-aging treatments should also provide some tailwinds for HAEMATO's nascent Medical Devices segment. The anti-aging market is among today's fastest growing global markets. New technologies have enabled an expanding wave of new treatments and products propelling high demand from Baby Boomers, Generation X members, and Millennials. With quality rising and prices falling, demand for anti-aging products (Botox, anti-wrinkle, anti-stretch, UV Absorbers) and beautification services (anti-pigmentation therapy, Chemical Peel, Eye Lid Surgery) is expected to reach USD 331bn by 2021. This compares to USD250bn in 2016 equal to a 5.8% CAGR for the period according to a recent study by Orbis Research.

Coveted benefits Produced naturally in the body, hyaluronic acid (HA) is a major component of the skin that secures moisture, creates fullness to promote youthful looking skin, and provides tissue repair and protection traits. As a consequence of aging, skin moisture can drop significantly. This reduces skin elasticity and exposes the dreaded signs of aging on the skin. Hyaluronic acid has a unique ability to hold in moisture and can play a key role in skin health and vitality.

In skin care, hyaluronic acid can be found as the key ingredient in creams, serums, injectables, and supplements. When applied as an HA cream or serum, the compound forms an air permeable layer penetrating into the dermis, thus boosting skin elasticity and hydration. The protective barrier also locks in moisture, giving the skin a youthful appearance.

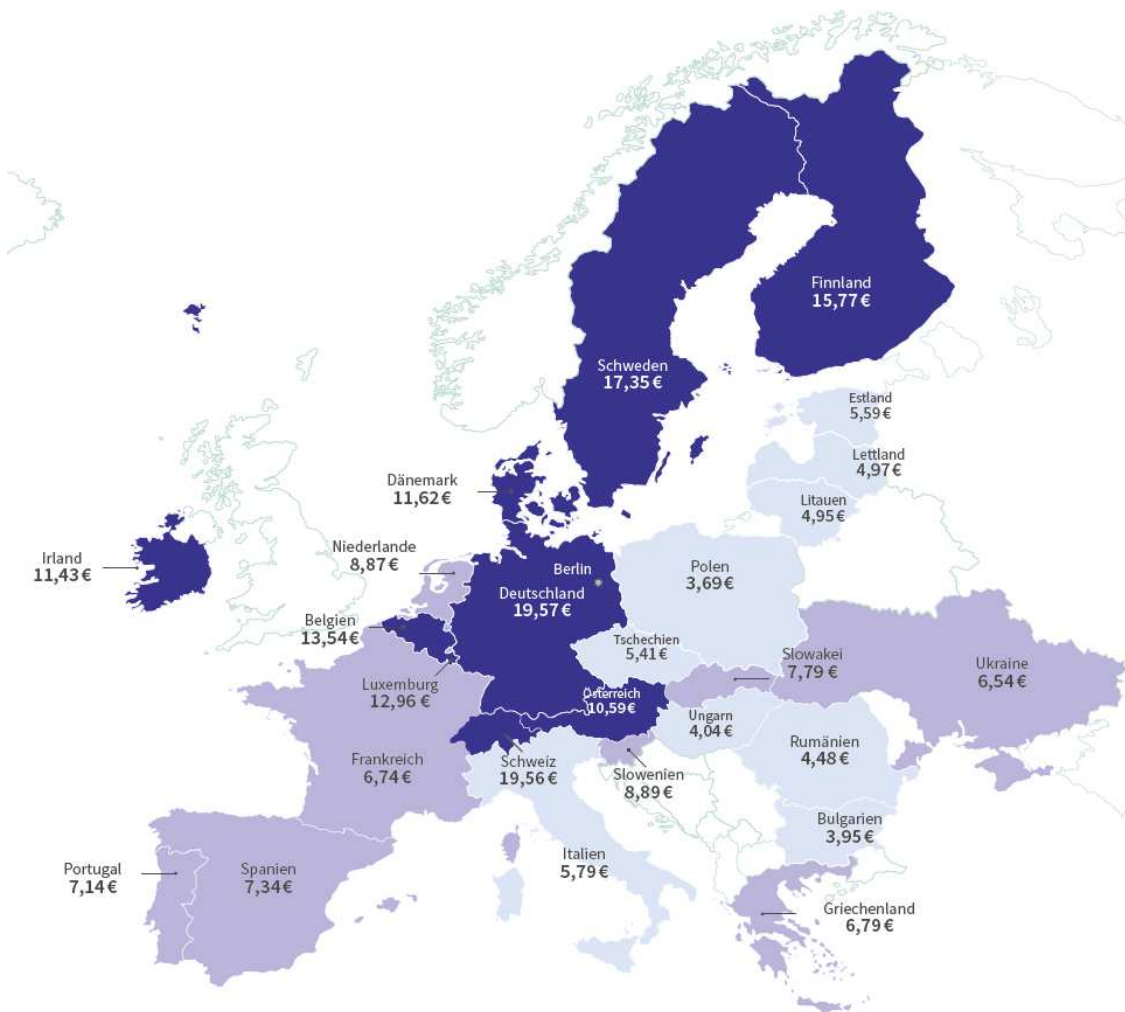
Hyaluronic acid can also be injected straight into the tissue instead of applied to the skin surface as a cream or serum. This is the most potent application, since it works beneath the skin surface. The technique is commonly known as dermal fillers and is growing quickly as a beautification treatment with an estimated 15m injectables having been sold throughout the EU last year.

Medical Products set to seize the growth reins In our meeting with management, we learned that HAEMATO should be able to begin selling its first branded HA based products in 2018 pending CE Marking. We understood the applications are roughly half way through the process, and it is still too early to quantify potential unit sales.

We expect initial volumes to be modest relative to parallel import revenue. However, this product's high gross margin will immediately have a significant impact on profitability at the EBIT level. Moreover, the company should be able to execute with little investment into infrastructure by utilising existing staffing and facilities for distribution.

New markets being assessed for entrants In view of the wide price discrepancy in pharmaceuticals (figure 2) across the EU, we expect HAEMATO to further internationalise over the mid-term. We believe the Nordic region represents a good opportunity. The price levels are attractive and comparable to Germany. The Nordic region also makes sense from a logistical standpoint, given the proximity to the fulfilment centre in Berlin. However, given the time required to foster the necessary relationships locally and work through approval processes for specific pharmaceuticals, we view this as a story for 2019. That said, we believe the company is in the midst of taking the needed steps in terms of identifying the correct sales team members and working out the logistics.

Figure 2: Factory charge (FAP) per package in the EU pharmacy market



Source: Arzneimittelmarkt, Pharming Daten & Fakten 2017



H1 RESULTS LOWER THAN EXPECTED

Table 1: Results vs forecasts

All figures in EUR '000	H1/17	H1/17E	% delta	H1/16	% delta
Revenue	138,814	160,874	-13.7%	142,274	-2.4%
Gross profit	9,188	11,100	-17.2%	9,780	-6.1%
Margin (%)	6.6%	6.9%	-	6.9%	-
EBIT	3,182	5,783	-45.0%	5,856	-45.7%
Margin (%)	2.3%	3.6%	-	4.1%	-
Net income	2,164	4,652	-53.5%	4,415	-51.0%
EPS diluted (€)	0.10	0.22	-52.7%	0.21	-51.0%

Source: First Berlin Equity Research, HAEMATO

Six month results were lower than expected due to lower top line growth. Revenue slid 2.4% Y/Y but missed our target by some 13%. We attribute some of this to the optics resulting from the exceptional results booked in 2016. The strong momentum did not carry over into this year as expected suggesting last year was boosted by the Italian Black Swan effects in 2015, when the regulatory authorities temporarily gated parallel import distribution channels (see report of 16 April 2015). That said, growth has traditionally been lumpy with growth spurts followed by flat performance. We therefore believe it makes more sense to evaluate growth on an annual basis rather than through a six month or quarterly lens. Despite the disappointing growth, we do not believe this is an operational issue, and we look for growth to resume in H2.

Gross profit for the period amounted to €9.2m thus falling well short of our €11.2m target owing predominantly to the top line miss. HAEMATO sources pharmaceuticals for its parallel import business from a variety of regions, which can lead to price swings when supply is short. Moreover, HAEMATO continues to expand its product offering (currently over 800 medications), and each new pharmaceutical requires an import approval that adds to the direct costs.

Due largely to the lower gross profit and other operating income result, EBIT fell to €3.2m for the period (H1/16: €5.9m) equating to a 2.3% margin (H1/16: 4.1%). The net financial result amounted to €0.5m (H1/16: €0.4m). HAEMATO reported net income of €2.2m vs €4.4m in the prior year corresponding to EPS of €0.10 (H1/16: €0.21).



Balance sheet remains solid; boosted by recent capital increase Total assets grew to €120m (2016: €117m), thanks mainly to the increase in non-current financial assets to €19.8m (2016: €16.8m). These include stakes in listed companies. Net debt, including the €5.2m participation certificate, totalled €20.6m at the six month mark.

Table 2: Balance sheet KPI's

All figures in EUR '000	H1/17	2016	Delta
Cash	4,938	9,790	-49.6%
Short-term investments	2,859	2,813	1.6%
Financial debt (short- and long-term)	25,463	26,120	-2.5%
Net debt	20,525	16,331	25.7%
Total assets	119,761	116,774	2.6%
Shareholders' equity	66,108	63,091	4.8%
Equity ratio	55.2%	54.0%	-

Source: First Berlin Equity Research, HAEMATO

In early June, the company placed 1,201,102 new shares from its authorised capital at €6.20 per share. Consequently, the share capital increased to 21.98m shares (previously: 20.78m). Gross proceeds of some €7.4m strengthened the balance sheet and will facilitate the growth strategy including expansion into branded medical products. Shareholders' equity improved to €66.1m (2016: €63.1m) following the cap hike. The equity ratio edged higher to 55% vs 54% at year end 2016. The company has also extended the key credit line until 2020 / 2021, giving the company greater financial flexibility. We thus see the company adequately financed for the next operational stepping stones.

Weaker bottom line impacts cash flows Net operating cash flow totalled €-3.8m for the period compared to €0.9m in H1/16. The decrease can be traced to the lower bottom line result and higher working capital consumption. Cash flow from investing totalled €0.1m in the period resulting in free cash flow €-3.9m for the reporting period. Cash flow from financing amounted to €-1.0m owing mainly to the dividend payout to shareholders. Thus, change in cash for the period equalled €-4.9m leaving HAEMATO with some €4.9m in cash and equivalents on the balance sheet (2016: €9.8m).



Updating forecasts to reflect six month reporting Following the shortfall to forecasts we have lowered our H2/17 growth target to 6% Y/Y (previously 13%). We believe this is a more realistic assumption as the company gains traction with new pharmaceuticals being introduced in the parallel import pipeline. Our new forecasts essentially shift out our original revenue target by one year. There are also indications in the market that HAEMATO is taking market share evidenced by top line contraction at key rivals during the past two years while HAEMATO revenues have grown strongly.

We have only marginally tweaked our GM assumptions until we can get a better feel for the impact of the BI (business intelligence) measures on operational performance. We believe this could result in an overall uplift of up to 200 basis points over the next couple of years.

Our estimates do not include the launch of the HA product line, which harbour attractive earnings upside. That said, we expect to see the first sales volumes in 2018. Nor have we built international expansion into our forecasts until the opportunities take further shape. We thus regard our revised estimates as quite conservative.

Table 3: Changes to our forecasts

All figures in € '000	2017E			2018E		
	old	new	% delta	old	new	% delta
Revenue	311,625	280,154	-10.1%	345,904	309,571	-10.5%
Gross profit	21,502	19,554	-9.1%	23,867	22,444	-6.0%
Margin (%)	6.9%	7.0%	-	6.9%	7.2%	-
EBIT	11,202	8,130	-27.4%	12,831	11,019	-14.1%
Margin (%)	3.6%	2.9%	-	3.7%	3.6%	-
Net income	9,129	6,503	-28.8%	10,346	9,011	-12.9%
EPS diluted (€)	0.44	0.31	-28.8%	0.50	0.43	-12.9%

Source: First Berlin Equity Research



VALUATION

The H1 shortfall and subsequent adjustments to our forecasts result in a new fair value of €7.40 / share (previously: €8.40). We believe the company has a good opportunity to resume its growth path.

Although the regulator struck down attempts to abolish the quotas last November, we cannot rule out renewed pressure on the parallel import business model in the future until we can form a view of the incoming government's attitude towards parallel import quotas. Combating rising healthcare costs is firmly on all agendas, and we do not see any specific threats to the HAEMATO business model at present. However, the mood of incoming politicians is difficult to predict.

From an operational aspect, we believe the company remains vulnerable to margin volatility. We note that operating income has benefited greatly from the non-cash revaluation gains of financial assets over the years. A change in the market environment that has buoyed valuations of assets would greatly impact the P&L and bottom line.

All figures in EUR '000	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E
Sales	280,154	309,571	340,528	374,580	406,420	438,933	469,659	497,838
NOPLAT	6,179	8,374	9,763	11,102	12,811	14,569	16,030	17,638
+ depreciation & amortisation	1,565	1,085	945	862	806	778	762	548
Net operating cash flow	7,744	9,460	10,708	11,964	13,616	15,346	16,792	18,185
- total investments (CAPEX and WC)	742	-4,048	-4,287	-4,702	-3,360	-3,317	-4,205	-2,612
Capital expenditures	-981	-585	-556	-591	-619	-644	-663	-625
Working capital	1,723	-3,463	-3,730	-4,111	-2,741	-2,673	-3,542	-1,987
Free cash flows (FCF)	8,486	5,412	6,422	7,262	10,257	12,029	12,587	15,573
PV of FCF's	8,301	4,825	5,218	5,378	6,923	7,400	7,057	7,958

All figures in thousands	
PV of FCFs in explicit period	98,268
PV of FCFs in terminal period	81,215
Enterprise value (EV)	179,484
+ Net cash / - net debt (2016)	-16,331
+ Investments / minority interests	0
Shareholder value	163,153
Fair value per share (€)	7.42

		Terminal growth rate							
		0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	
WACC	Cost of equity	6.7%	11.14	11.69	12.34	13.11	14.05	15.21	16.68
	Pre-tax cost of debt	7.7%	9.30	9.67	10.09	10.58	11.16	11.85	12.69
	Tax rate	8.7%	7.90	8.16	8.45	8.78	9.15	9.59	10.11
	After-tax cost of debt	9.7%	6.81	6.99	7.19	7.42	7.68	7.98	8.31
	Share of equity capital	10.7%	5.93	6.07	6.21	6.38	6.56	6.77	7.00
	Share of debt capital	11.7%	5.22	5.32	5.43	5.55	5.68	5.83	5.99
	WACC	12.7%	4.63	4.70	4.79	4.88	4.97	5.08	5.20

*Please note our model runs through 2030 and we have only shown the abbreviated version for formatting purposes



INCOME STATEMENT

All figures in EUR '000	2015	2016	2017E	2018E	2019E
Revenues	229,727	275,614	280,154	309,571	340,528
Cost of goods sold	-214,454	-256,145	-260,601	-287,127	-315,805
Gross profit	15,273	19,469	19,554	22,444	24,722
Personnel expenses	-5,409	-6,005	-6,135	-6,501	-6,708
Other OpEx	-6,462	-8,420	-7,727	-8,173	-8,990
Other income	6,622	10,202	4,052	4,334	4,767
EBITDA	10,024	15,246	9,695	12,104	13,791
Depreciation & amortisation	-1,799	-1,805	-1,565	-1,085	-945
Operating income (EBIT)	8,225	13,441	8,130	11,019	12,847
Net financial result	-2,197	-1,182	-955	-1,483	-1,749
Pre-tax income (EBT)	6,028	12,259	7,175	9,536	11,098
Income taxes	-489	-1,222	-672	-524	-1,110
Minority interests	0	0	0	0	0
Net income / loss	5,539	11,037	6,503	9,011	9,988
Diluted EPS (in €)	0.27	0.53	0.31	0.43	0.48
Ratios					
Gross margin	6.6%	7.1%	7.0%	7.2%	7.3%
EBIT margin on revenues	3.6%	4.9%	2.9%	3.6%	3.8%
EBITDA margin on revenues	4.4%	5.5%	3.5%	3.9%	4.1%
Net margin on revenues	2.4%	4.0%	2.3%	2.9%	2.9%
Tax rate	8.1%	10.0%	15.0%	19.0%	20.3%
Expenses as % of revenues					
Personnel expenses	2.4%	2.2%	2.2%	2.1%	2.0%
Other OpEx	2.8%	3.1%	2.8%	2.6%	2.6%
Depreciation & amortisation	0.8%	0.7%	0.6%	0.4%	0.3%
Y-Y Growth					
Revenues	13.3%	20.0%	1.6%	10.5%	10.0%
Operating income	-0.1%	63.4%	-39.5%	35.5%	16.6%
Net income/ loss	-20.6%	99.3%	-41.1%	38.6%	10.8%



BALANCE SHEET

All figures in EUR '000	2015	2016	2017E	2018E	2019E
Assets					
Current assets, total	52,860	59,431	59,247	65,852	73,316
Cash and equivalents	2,449	9,790	8,877	11,059	13,756
ST financial assets and securities	2,791	7,084	7,084	7,084	7,084
Trade receivables	4,725	4,118	4,605	5,089	5,598
Inventories	41,677	37,893	37,841	41,692	45,857
Other ST assets	1,218	546	840	929	1,022
Non-current assets, total	54,129	57,342	59,888	62,582	65,498
Property, plant & equipment	1,308	1,178	979	1,054	1,071
Goodwill & other intangibles	40,213	39,259	38,874	38,298	37,892
Financial assets	12,474	16,769	19,839	23,014	26,296
Deferred taxes	134	136	196	217	238
Total assets	106,989	116,772	119,135	128,435	138,814
Shareholders' equity & debt					
Current liabilities, total	35,588	28,709	23,313	28,794	29,423
Trade payables	5,684	6,410	8,568	9,440	10,383
ST debt	21,636	1,912	2,688	6,688	5,736
Provisions	4,309	7,187	7,295	7,404	7,515
Other ST financial liabilities	539	813	560	619	681
Other current liabilities	3,420	12,387	4,202	4,644	5,108
Long-term liabilities, total	13,112	24,972	25,374	26,775	33,132
Long-term debt	12,190	24,209	24,521	25,834	32,097
LT provisions	21	13	13	13	13
Deferred tax liabilities	901	750	840	929	1,022
Shareholders' equity	58,289	63,092	70,448	72,865	76,259
Total consolidated equity and debt	106,989	116,772	119,135	128,435	138,814
Ratios					
Current ratio (x)	1.5	2.1	2.5	2.3	2.5
Quick ratio (x)	0.3	0.8	0.9	0.8	0.9
Net debt	31,377	16,331	18,331	21,462	24,077
Net gearing	54%	26%	26%	29%	32%
Return on equity (ROE)	9.5%	17.5%	9.2%	12.4%	13.1%
Capital employed (CE)	47,655.2	41,453.5	39,146.5	42,109.1	45,450.8
Return on capital employed (ROCE)	17%	32%	21%	26%	28%



CASH FLOW STATEMENT

All figures in EUR '000	2015	2016	2017E	2018E	2019E
Pre-tax income	6,028	12,259	7,175	9,536	11,098
Depreciation and amortisation	1,799	1,805	1,565	1,085	945
Change to LT accruals	1,712	1,828	0	0	0
Change in financial asset valuations	-4,994	-9,657	-3,070	-3,175	-3,282
Asset disposals	-899	59	0	0	0
Interest income	-8	-44	-10	-10	-10
Interest expense	1,629	1,858	1,605	1,493	1,759
Change in trade rec & other assets	4,947	1,137	-841	-592	-623
Change in inventory	-7,489	3,784	52	-3,852	-4,164
Change in payable & other liabilities	786	902	-6,081	1,570	1,673
Operating cash flow	3,510	13,931	394	6,055	7,394
Interest income	8	44	10	10	10
Interest expense paid	-1,629	-1,858	-1,605	-1,493	-1,759
Tax paid	-489	-1,222	-672	-524	-1,110
Net operating cash flow	1,400	10,895	-1,873	4,048	4,536
CapEx	-796	52	-981	-585	-556
Proceeds from disposal of fixed assets	342	0	0	0	0
Cash flow from investing	-454	52	-981	-585	-556
Free cash flow (FCF)	946	10,947	-2,853	3,463	3,979
Equity inflow, net	0	0	7,446	0	0
Debt inflow, net	5,313	1,695	1,089	5,313	5,313
Dividend paid to shareholders	-6,234	-5,301	-6,594	-6,594	-6,594
Cash flow from financing	-921	-3,606	1,941	-1,282	-1,282
Net cash flows	25	7,341	-912	2,181	2,698
Cash, start of the year	2,424	2,449	9,790	8,877	11,059
Cash, end of the year	2,449	9,790	8,877	11,059	13,756
EBITDA/share (in €)	0.48	0.73	0.45	0.55	0.63
Y-Y Growth					
Operating cash flow	-78.7%	678.1%	n.m.	n.m.	12.1%
Free cash flow	-80.0%	1056.9%	n.m.	n.m.	14.9%
EBITDA/share	-2.6%	52.1%	-38.8%	22.6%	13.9%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	27 August 2013	€3.00	Buy	€5.70
2...13	↓	↓	↓	↓
14	7 December 2016	€5.45	Buy	€7.00
15	17 March 2017	€6.05	Buy	€8.40
16	9 May 2017	€6.66	Buy	€8.40
17	Today	€5.59	Buy	€7.40

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